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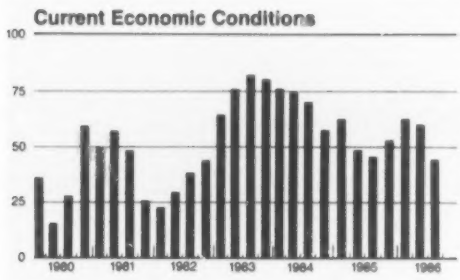
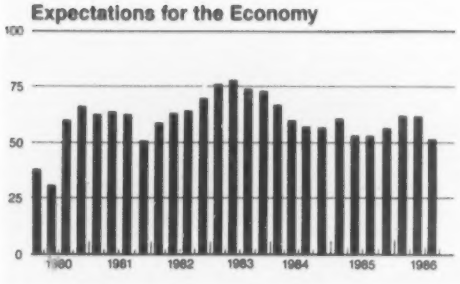
The Conference Board
70th Anniversary

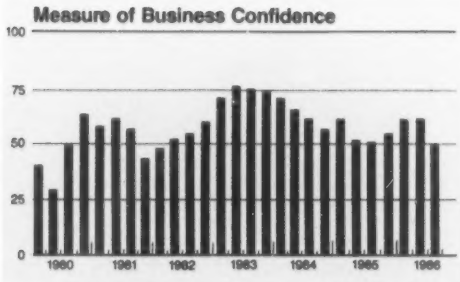
A Survey of Chief Executives

Business Executives' Expectations

A Quarterly Report from The Conference Board **Third Quarter 1986**







Business Confidence Declines Sharply

The Conference Board's *Measure of Business Confidence* declined sharply in the third quarter of 1986 after rebounding to mildly optimistic levels in the first half of the year. The third-quarter decline to a level of 50—from 61 in each of the first two quarters—reversed all of the increase recorded since the third quarter of 1985. Sharp declines both in executives' sentiments about current economic conditions and in their expectations for the economy six months hence pulled down the overall confidence measure.

Expectations Turn Less Bullish

The slump in the *Business Expectations Index*—from 62 in the second quarter to 52 in the third quarter—erased the entire increase recorded since the summer of 1985. Fewer than one-third of the 1,000 top executives surveyed expect the economy to strengthen over the next half year; 6 percent expect the economy to be worse off. Recent moderation in the *Expectations Index* suggests that business executives may have begun to tone down the general optimism they had expressed earlier in the year for new Federal fiscal policies, improvements in the trade balance, and the salutory effects of disinflation. Executives in all industries, except instruments and contract construction, revised their expectations downward for both the economy and their own industries from second-quarter levels.

Current Economic Conditions Deteriorate

Downward revisions in executives' expectations in the third quarter also reflect disappointment with current economic conditions compared with six months earlier. With 48 percent of executives feeling that the economy was worse off in the third quarter, the *Current Economic Conditions* index dropped to 44 from 61 in the second quarter and 63 in the first. Only 15 percent of executives felt the economy had improved during the third quarter; an additional 37 percent noticed no change in economic activity. Executives in only two industries (paper and mining) reported improved conditions (though the mining industry's index remains deeply depressed).

Mild Price Firming Expected In 1987

Persistently strong domestic and international competitive pressures will limit price increases in 1986 and 1987, according to most of the surveyed executives. Fewer than half of the respondents (48 percent) anticipate charging higher prices in 1986 than last year. Of these, only 7 percent plan to raise prices at a more rapid rate than in 1985, while 15 percent plan to match last year's price increases. Nearly one out of ten executives expects 1986 prices to end the year below last year's level.

For 1987, surveyed executives expect prices to firm modestly. About 12 percent of respondents expect to accelerate price increases next year. Another 20 percent plan to raise prices at the same rate as in 1986, while 6 percent anticipate further price reductions. The most common reason for this mild price firming: reduced foreign competition as the lagged effects of the decline in the dollar begin to take hold and imports become more expensive.

Steven Malin

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Table 1: SELLING PRICES IN 1986 COMPARED WITH 1985

	Rise Faster	Rise Same	Rise Slower	No Change	Drop
Durables manufacturing	7%	12%	23%	39%	19%
Nondurables manufacturing	14	7	33	28	19
Mining	12	6	6	23	53
Construction	12	23	12	29	23
Transportation	7	14	21	29	29
Trade	5	33	19	21	21
Communications	0	0	38	50	12
Finance and insurance	6	16	32	32	14
All industries	7	15	26	33	19

Table 2: SELLING PRICE OUTLOOK ONE YEAR AHEAD

	1986 Survey	1984 Survey	1983 Survey
Rise Faster	12%	17%	25%
Rise Same	21	29	32
Rise Slower	30	32	28
No Change	31	18	12
Drop	5	4	3

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1983			1984				1985				1986	
	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	June
MEASURE OF BUSINESS CONFIDENCE	75	74	70	65	61	57	61	52	51	55	61	61	50
1. Current Economic Conditions vs. 6 Months Ago	82	80	76	75	70	57	62	48	45	53	63	61	44
2. Expectations for Economy, 6 Months Ahead	74	73	67	60	57	57	61	53	53	56	62	62	52
3. Expectations for Own Industry, 6 Months Ahead	69	70	67	61	57	58	61	55	54	56	59	60	54
4. Current Conditions in Own Industry vs. 6 Months Ago	71	70	70	67	62	55	57	51	47	53	57	54	47

Table 4: OWN INDUSTRY INDEXES

	Current Conditions					Expectations for Next 6 Months				
	1985		1986			1985		1986		
	Aug.	Nov.	Feb.	May	June	Aug.	Nov.	Feb.	May	June
Manufacturing	41	49	55	52	45	53	55	60	59	52
Food	43	46	49	50	50	52	55	55	59	56
Textiles	40	67	72	72	65	46	56	54	58	48
Apparel	36	52	54	40	36	52	50	61	60	45
Paper	38	57	57	59	63	62	59	69	68	59
Printing, Publishing	50	46	59	48	38	59	63	63	58	61
Chemicals	45	47	60	63	55	59	55	66	66	58
Rubber	29	43	48	58	44	48	59	66	67	58
Lumber, Furniture	40	48	61	60	59	52	50	56	67	56
Stone, Clay, Glass	49	57	48	57	57	51	47	58	55	48
Primary Metals	39	46	54	48	33	55	54	57	53	41
Fabricated Metals	45	50	57	52	40	55	56	59	55	51
Nonelectrical Machinery	41	47	50	44	32	46	53	58	57	44
Electrical Machinery	31	48	59	56	51	54	61	65	64	62
Transportation Equipment	41	42	46	49	43	57	51	46	56	48
Instruments	39	52	54	52	47	45	63	64	55	56
Mining	38	41	41	24	38	53	47	54	53	53
Construction	51	53	42	44	40	49	45	43	42	54
Transportation	51	50	50	58	54	56	54	66	68	61
Electric, Gas Utilities	51	53	56	48	49	50	58	55	58	55
Wholesale Trade	42	47	58	54	44	52	57	59	58	55
Retail Trade	45	46	52	54	51	59	53	56	63	59
Banking	54	58	63	55	46	54	58	60	59	51
Other Finance	76	79	74	76	63	61	65	65	61	52
Insurance	63	60	68	68	56	62	62	64	71	57
Business Services	50	51	58	62	52	52	60	55	63	53

The **Measure of Business Confidence** is the average of the scores for Questions 1,2, and 3. There are five reply options for each question; a score for each question is determined by assigning the following values to the replies and calculating the average: Substantially Better—100; Moderately Better—75; Same—50; Moderately Worse—25; Substantially Worse—0. The score for each question, and the **Measure of Business Confidence**, thus can range from 0 to 100.

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Please Note: In the interest of speeding the data contained in this publication to you, these series are now available on-line through The Conference Board Data Base. For more information, call Linette Stein (212) 759-0900.

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